



# **TOP 5 TECHNIQUES FOR STARTUPS VALUATION IN INDIA**

Figure 1

There is a famous saying,

**"WHENEVER THERE IS A TRANSACTION, THERE IS VALUATION". IT IS TRUE. BUT THE REVERSE IS NOT TRUE- "WHENEVER THERE IS VALUATION, THERE MUST HAVE BEEN TRANSACTION".**

Many times valuation is isolated from a transaction. A start-up has developed an idea. It has validated the idea. Business promoters would like to the value of their startups now and after, say, 1-3-5 years. Why so? They need it to confirm that:-

- Whether idea has been successful
- Whether business model and business plan have been successful.
- The growth rate of the business
- Employees and other stakeholders' satisfaction
- Improvement in profitability
- Strategic position in marketplace etc.

***Start-up valuation is different from valuing any running business due to many reasons. Start-ups may not have:-***

- Business experience
- Operational skill set
- Brand name for their products/services
- Strong R&D base
- Dedicated execution team
- Experience of affording sudden economic shocks
- A required amount of fund etc.

However, the best part of is that startup owners are not biased and secondly, they can be guided and molded on the above issues easily.

***Let us discuss some techniques for the startup valuation:***

1. **Asset approach:** New businesses normally have few assets. Under this approach, the market value of all the assets is assigned. Assets include current assets also. Apart from that, a value of intangibles must also be assigned. The combined value will be the value of the business.
2. All principals and employees add value. Assigning a value to all paid professionals based on their skills, Knowledge, experience and their contribution to the organization may be a fair idea.
3. Early customers and contracts in progress add value to the business. Existing customer relationship and contracts should be monetized.

4. Use of discounted cash flow is also a good idea. A reasonable number of future years for which sales seem to be visible can be forecasted. The cash profit should be capitalized at a discount rate. While estimating the discount rate care should be taken to factor the risk and uncertainty and if possible a bit conservative discount rate should be chosen.
5. Earnings multiple approaches- earnings multiple is selected and the average earnings should be multiplied to reach valuation figure. This approach is usually applied to a more mature start-up.

To conclude, whatever may be the techniques used for start-up valuation, care should be taken that:

- It is unbiased
- It is relevant
- It considers all the aspects of valuation
- It is explanatory
- It serves the purpose of various stakeholders
- It should help in making decisions

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## Contact Us:

Head Office (India)

**Venture Care**

Sr.No-29, Ajikyatara, kalaniketan,  
Dhankawadi, Near Rajshri Shahu  
Bank,  
Pune, Maharashtra 411043 (IN)

Phone: (020)-65 3636 33

Branch Office (Netherlands)

**Venture Care**

Jonker Fransstraat 46,  
3031 AV Rotterdam, (NL)

Phone:+31 614 575 275

